

OUTLIER EXAMPLE

The following example simulates the outlier payment for a case at a generic hospital in the San Francisco, California CBSA, which is a large urban area. The patient was discharged on or after October 1, 2005 and the hospital incurred Medicare approved charges of \$125,000. The DRG assigned to the case was 498. The hospital is 100% Federal for capital payment purposes.

Step 1: Determine federal payment with IME and DSH based on the following values:

| | |
|---|------------|
| DRG 498 Relative Weight | 2.7791 |
| Operating | |
| National Large Urban Standardized Amounts | |
| Labor-related | \$3,297.84 |
| Nonlabor-related | \$1,433.63 |
| San Francisco CBSA Wage Index | 1.4974 |
| IME Operating Adjustment Factor | 0.0744 |
| DSH Operating Adjustment Factor | 0.1413 |
| Labor Related Portion | 0.697 |
| Nonlabor Related Portion | 0.303 |

Federal Rate for Operating Costs = DRG Relative Weight x [(Labor Related Large Urban Standardized Amount x San Francisco CBSA Wage Index) + Nonlabor Related National Large Urban Standardized Amount] x (1 + IME + DSH):

$$2.7791 \times [(\$3,297.84 \times 1.4974) + \$1,433.63] \times (1 + 0.0744 + 0.1413) = \$21,527.51$$

Capital

| | |
|--|----------|
| Federal Capital Rate | \$420.65 |
| Large Urban Add-on | 1.03 |
| San Francisco MSA Geographic Adjustment Factor | 1.3185 |
| IME Capital Adjustment Factor | 0.0243 |
| DSH Capital Adjustment Factor | 0.0631 |

Federal Rate for Capital Costs = DRG Relative Weight x Federal Capital Rate x Large Urban Add-On x Geographic Cost Adjustment Factor x (1 + IME + DSH):

$$2.7791 \times \$420.65 \times 1.03 \times 1.3185 \times (1 + 0.0243 + 0.0631) = \$1,726.36$$

Step 2: Determine Costs:

| | |
|--------------------------------|-----------|
| Billed Charges | \$125,000 |
| Operating Cost to Charge Ratio | 0.45 |

Operating Costs = (Billed Charges x Operating Cost to Charge Ratio)

$$(\$125,000 \times .45) \quad \$56,250$$

Capital Cost to Charge Ratio 0.06

Capital Costs = (Billed Charges x Capital Cost to Charge Ratio)

$$(\$125,000 \times .06) \quad \$7,500$$

Step 3: Determine Outlier Threshold

Fixed Loss Threshold \$23,600

Operating CCR to Total CCR

$$\begin{aligned} & \text{(Operating CCR) / (Operating CCR + Capital CCR)} \\ & (.45) / (.45 + .06) \end{aligned} \quad 0.8824$$

Operating Outlier Threshold = { [Fixed Loss Threshold x ((Labor related portion x San Francisco CBSA Wage Index) + Nonlabor related portion)] x Operating CCR to Total} + Federal Payment with IME and DSH:

$$\{ \$23,600 \times [(0.697 \times 1.4974) + 0.303] \times 0.8824 \} + \$21,527.51 = \$49,571.80$$

Capital CCR to Total CCR

$$\begin{aligned} & [\text{Capital CCR} / (\text{Operating CCR} + \text{Capital CCR})] \\ & (.06) / (.45 + .06) \end{aligned} \quad 0.1176$$

Capital Outlier Threshold = (Fixed Loss Threshold x Geographic Adj. Factor x Large Urban Add-On x Capital CCR to Total CCR) + Federal Payment with IME and DSH:

$$(\$23,600 \times 1.3185 \times 1.03 \times 0.1176) + \$1,726.36 = \$5,495.45$$

Step 4: Determine Outlier Payment:

Marginal Cost Factor 0.80

Outlier Payment = (Costs - Outlier Threshold) x Marginal Cost Factor

$$\begin{aligned} & \text{Operating} \\ & (\$56,250 - \$49,571.80) \times 0.80 = \end{aligned} \quad \$5,342.56$$

Capital

$$(\$7,500 - \$5,495.45) \times 0.80 =$$

$$\$1,603.64$$

Combined operating and capital costs for a case must exceed the combined threshold to qualify for an outlier payment.